

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**

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## **Letter of Representation**

In 2005 (from January 1 to December 31, 2005), the Company's related-party companies consolidated in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as those required for a parent and subsidiaries consolidated in accordance with Statement of Financial Accounting Standards No. 7, and the required disclosures of information relating to consolidated statements have already been disclosed in the aforementioned parent and subsidiaries' consolidated financial statements; therefore, consolidated financial statements of related-party companies are not separately prepared.

Company Name: SHIH WEI NAVIGATION CO., LTD.

Chairman:

February 27, 2006

## **Independent Auditors' Report**

The Board of Directors  
Shih Wei Navigation Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shih Wei Navigation Co., Ltd. and subsidiaries as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" of the Republic of China. Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shih Wei Navigation Co., Ltd. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with the "Standards Governing the Compilation of Financial Statements by Securities Issuers" and generally accepted accounting principles of the R.O.C.

February 27, 2006  
Taipei, Taiwan, R.O.C.

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2005 AND 2004**  
(amounts expressed in thousands of New Taiwan dollars)

	2005		2004	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 4.1)	\$ 1,048,094	11	487,669	7
Short-term investments, net	101,400	1	3,000	-
Accounts receivable, net	27,441	-	31,401	-
Other accounts receivable – related party (Note 5)	2,948	-	-	-
Other financial assets – current (Note 10)	40,613	1	96,240	1
Inventories	74,479	1	57,502	1
Deferred income tax asset – current (Note 4.9)	3,843	-	2,109	-
Restricted assets – current (Note 6)	16,127	-	15,566	-
Other current assets	41,077	-	65,914	1
	<u>1,356,022</u>	<u>14</u>	<u>759,401</u>	<u>10</u>
<b>LONG-TERM EQUITY INVESTMENTS (Note 4.2)</b>				
Long-term investment – equity method	63,520	1	55,410	1
Long-term investment – cost method	62,778	-	31,340	-
	<u>126,298</u>	<u>1</u>	<u>86,750</u>	<u>1</u>
<b>PROPERTY AND EQUIPMENT (Notes 4.3 and 6)</b>				
Land	79,937	1	79,937	1
Buildings and structures	29,957	-	29,572	-
Transportation equipment	5,300	-	2,260	-
Vessel equipment	9,662,342	102	7,995,745	103
Office furniture and equipment	2,562	-	2,665	-
Leasehold improvements	7,963	-	12,116	-
Prepayments for business facilities	233,220	2	208,383	3
Other equipment	46,244	-	32,343	-
Less: Accumulated depreciation	( 2,316,618)	( 24)	( 1,803,986)	( 23)
	<u>7,750,907</u>	<u>81</u>	<u>6,559,035</u>	<u>84</u>
<b>INTANGIBLE ASSETS</b>				
Deferred pension cost (Note 4.4)	2,022	-	2,684	-
<b>OTHER ASSETS</b>				
Deposits-out	174,143	2	328,185	4
Deferred charges	107,653	1	85,567	1
	<u>281,796</u>	<u>3</u>	<u>413,752</u>	<u>5</u>
<b>TOTAL ASSETS</b>	<b>\$ 9,517,045</b>	<b>100</b>	<b>7,821,622</b>	<b>100</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 77,691	1	54,291	1
Accrued tax payable (Note 4.9)	59,922	1	31,208	-
Accrued expenses	87,118	1	83,425	1
Current portion of long-term liabilities (Note 4.5)	608,985	6	827,935	11
Other current liabilities (Notes 5 and 7)	87,188	1	84,729	1
	<u>920,904</u>	<u>10</u>	<u>1,081,588</u>	<u>14</u>
<b>LONG-TERM LIABILITIES</b>				
Long-term loans (Note 4.6)	4,129,386	43	3,450,674	44
<b>OTHER LIABILITIES</b>				
Accrued pension liability (Note 4.4)	14,470	-	11,132	-
Deposits-in	185	-	195	-
Unrealized gain on sale and leaseback (Note 4.3)	28	-	192	-
	<u>14,683</u>	<u>-</u>	<u>11,519</u>	<u>-</u>
Total Liabilities	<u>5,064,973</u>	<u>53</u>	<u>4,543,781</u>	<u>58</u>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock				
Common stock (Note 4.7)	2,524,973	27	2,013,578	26
Capital surplus (Note 4.6)				
Capital surplus – additional paid-in capital	104,883	1	255,902	3
Capital surplus – convertible bonds converted in excess of the common stock's par value	68,110	1	68,110	1
Retained earnings (Note 4.8)				
Legal reserve	156,574	2	67,664	1
Special reserve	37,586	-	-	-
Unappropriated earnings	1,465,375	15	910,173	12
Cumulative translation adjustment	99,474	1	( 35,819)	( 1)
Unrecognized pension loss	( 4,903)	-	( 1,767)	-
Total Stockholders' Equity	<u>4,452,072</u>	<u>47</u>	<u>3,277,841</u>	<u>42</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 9,517,045</b>	<b>100</b>	<b>7,821,622</b>	<b>100</b>

The accompanying notes are an integral part of the consolidated financial statements.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(amounts expressed in thousands of New Taiwan dollars)

	2005		2004	
	Amount	%	Amount	%
Operating revenue, net	\$ 3,503,038	100	2,577,078	100
Operating costs	1,891,406	54	1,717,667	67
Operating gross profit	1,611,632	46	859,411	33
Operating expenses	113,756	3	102,943	4
Operating income	1,497,876	43	756,468	29
Nonoperating income				
Interest income	20,658	1	7,584	-
Investment gain— equity method (Note 4.2)	16,857	-	161,013	6
Cash dividends (Note 4.2)	21,530	1	25,615	1
Gain on disposal of property and equipment	931	-	229	-
Gain on sale of investments	569	-	170	-
Foreign exchange gain	103,509	3	-	-
Rental income	96	-	96	-
Other income	53,512	1	133,995	6
	217,662	6	328,702	13
Non-operating expenses				
Interest expense	185,287	5	125,054	5
Loss on disposal of property and equipment	348	-	-	-
Foreign exchange loss	-	-	33,558	1
Other expenses	6,333	-	2,355	-
	191,968	5	160,967	6
Income before income tax	1,523,570	44	924,203	36
Income tax expense (Note 4.9)	( 64,780)	( 2)	( 35,107)	( 1)
Total consolidated net income	<b>\$ 1,458,790</b>	<b>42</b>	<b>889,096</b>	<b>35</b>
Distributed to:				
Consolidated net income	\$ 1,458,790	42	889,096	35
Minority interest income	-	-	-	-
	<b>\$ 1,458,790</b>	<b>42</b>	<b>889,096</b>	<b>35</b>
	<b>Before tax</b>	<b>After tax</b>	<b>Before tax</b>	<b>After tax</b>
Earnings per share in New Taiwan dollars (Note 4.10)				
-Primary earning per share, current period	<b>\$ 6.03</b>	<b>5.78</b>	<b>4.82</b>	<b>4.64</b>
-Primary earning per share, retroactively adjusted	<b>\$ 6.03</b>	<b>5.78</b>	<b>3.84</b>	<b>3.70</b>

The accompanying notes are an integral part of the consolidated financial statements.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(amounts expressed in thousands of New Taiwan dollars)

	Capital stock	Capital surplus	Retained earnings			Cumulative translation adjustment	Unrecognized pension loss	Total
			Legal reserve	Special reserve	Unappropriated earnings			
Balance, January 1, 2004	\$ 1,541,028	402,299	44,577	-	287,318	174,377	( 2,323)	2,447,276
Appropriation of 2003 earnings:								
Legal reserve	-	-	23,087	-	( 23,087)	-	-	-
Capitalization of retained earnings	154,103	-	-	-	( 154,103)	-	-	-
Cash dividends	-	-	-	-	( 77,051)	-	-	( 77,051)
Capitalization of employee bonuses	7,500	-	-	-	( 7,500)	-	-	-
Compensation to directors and supervisors	-	-	-	-	( 4,500)	-	-	( 4,500)
Capitalization of capital surplus	146,397	( 146,397)	-	-	-	-	-	-
Convertible bonds converted into common stock	164,550	68,110	-	-	-	-	-	232,660
Net income for 2004	-	-	-	-	889,096	-	-	889,096
Unrecognized pension gain (loss)	-	-	-	-	-	-	556	556
Cumulative translation adjustment	-	-	-	-	-	( 210,196)	-	( 210,196)
Balance, December 31, 2004	2,013,578	324,012	67,664	-	910,173	( 35,819)	( 1,767)	3,277,841
Appropriation of 2004 earnings:								
Legal reserve	-	-	88,910	-	( 88,910)	-	-	-
Special reserve	-	-	-	37,586	( 37,586)	-	-	-
Capitalization of employee bonuses	8,000	-	-	-	( 8,000)	-	-	-
Capitalization of retained earnings	352,376	-	-	-	( 352,376)	-	-	-
Employee bonuses	-	-	-	-	( 8,000)	-	-	( 8,000)
Compensation to directors and supervisors	-	-	-	-	( 6,000)	-	-	( 6,000)
Cash dividends	-	-	-	-	( 402,716)	-	-	( 402,716)
Capitalization of capital surplus	151,019	( 151,019)	-	-	-	-	-	-
Net income for 2005	-	-	-	-	1,458,790	-	-	1,458,790
Unrecognized pension gain (loss)	-	-	-	-	-	-	( 3,136)	( 3,136)
Cumulative translation adjustment	-	-	-	-	-	135,293	-	135,293
Balance, December 31, 2005	\$ 2,524,973	172,993	156,574	37,586	1,465,375	99,474	( 4,903)	4,452,072

**The accompanying notes are an integral part of the consolidated financial statements**

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(amounts expressed in thousands of New Taiwan dollars)

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Total consolidated net income	\$ 1,458,790	889,096
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Bad debt expense	-	1,806
Depreciation	452,290	403,402
Amortization	58,909	47,301
Transfer of deferred charges to operating expenses	450	38
Recovery of liquidating dividends – cost method	( 3,846)	4,326
Investment gain – equity method (excluding cash dividends)	( 16,857)	( 13,255)
Loss (gain) on disposal of property and equipment, net	( 931)	( 174)
Gain on sale of investments	( 221)	( 170)
Gain on disposal of deferred changes	-	( 55)
Accrued premiums on convertible bonds	-	2,660
Changes in assets and liabilities:		
Notes and accounts receivable, net	4,731	45,930
Other accounts receivable – related party	( 2,892)	-
Other financial assets – current	57,598	8,096
Inventories	( 14,898)	( 9,023)
Deferred income tax assets – current	( 1,734)	( 521)
Other current assets	26,549	( 34,620)
Notes payable	-	( 8,431)
Accounts payable	21,429	( 35,279)
Income tax payable	28,714	10,613
Accrued expenses	1,739	( 9,499)
Other current liabilities	( 59)	29,435
Accrued pension liability	864	( 2,303)
Net cash provided by operating activities	2,070,625	1,329,373
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of short-term investments	1,368,421	250,176
Purchases of short-term investments	( 1,464,722)	( 253,000)
Purchases of long-term investments	( 26,395)	( 19,962)
Repayment of long-term investments	10,859	61,597
Sale of property and equipment	952	-
Purchases of property and equipment	( 1,396,884)	( 1,056,940)
Increase in deferred charges	( 79,007)	( 81,217)
Sales of deferred charges	-	662
Decrease in restricted assets (including current and non-current)	-	22,721
Decrease in deposits-out	162,347	31,741
Net cash used in investing activities	( 1,424,429)	( 1,044,222)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Decrease in short-term loans	-	( 356,914)
Increase in convertible bonds	-	230,000
Increase in long-term liabilities	307,552	373,258
(Decrease) increase in deposits-in	( 10)	16
Distribution of cash dividends	( 402,716)	( 77,051)
Employee bonuses and compensation to directors and supervisors	( 14,000)	( 4,500)
Net cash provided by financing activities	( 109,174)	164,809
<b>EXCHANGE RATE EFFECT</b>	23,403	( 10,556)
Net increase in cash and cash equivalents	560,425	439,404
Cash and cash equivalents, beginning of period	487,669	48,265
Cash and cash equivalents, end of period	\$ 1,048,094	487,669
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest (excluding capitalized interest)	\$ 178,108	122,570
Cash paid during the period for income tax	\$ 37,800	25,015
<b>SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:</b>		
Reclassification of long-term liabilities due in one year	\$ 608,985	827,935
Convertible bonds converted into common stock (including the amount in excess of the common stock's par value)	\$ -	232,660

The accompanying notes are an integral part of the consolidated financial statements.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005 AND 2004**

(amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

**1. ORGANIZATION AND OPERATIONS**

SHIH WEI NAVIGATION CO., LTD. (the Company) was established in March 1985 in accordance with the Company Law of the Republic of China. The Company's stock was listed on the securities exchange of the Taiwan Stock Exchange Corporation on August 25, 2003. In July 1994, the Company invested in a wholly owned (100%) subsidiary, DONG LIEN MARITIME S.A. (PANAMA), which reinvested in 100% ownership of FOURSEAS MARITIME S.A. (PANAMA), ELEGANT PESCADORES S.A. (PANAMA), BRAVE PESCADORES S.A., GRAND OCEAN NAVIGATION S.A. (PANAMA), JACKSON STEAMSHIP S.A. (PANAMA), BLOSSOM PESCADORES S.A. (PANAMA), ROYAL PESCADORES S.A. (PANAMA), SHINING PESCADORES S.A. (PANAMA), BRILLIANT PESCADORES S.A., SUNNY PESCADORES S.A. (PANAMA), GENIUS PESCADORES S.A. (PANAMA), GALLANT PESCADORES S.A. (PANAMA), GRAND PESCADORES S.A. (PANAMA), MOON BRIGHT SHIPPING CORP. (PANAMA), EXCELLENT PESCADORES S.A. (PANAMA), HONOR PESCADORES S.A. (PANAMA), BRIGHT PESCADORES S.A. (PANAMA), SUPERIOR PESCADORES S.A. (PANAMA), VALOR PESCADORES S.A. (PANAMA), GRAND OVERSEAS S.A. (PANAMA), UNICORN BRILLIANT S.A. (PANAMA), PHAROS PESCADORES S.A. (PANAMA), BEACON PESCADORES S.A. (PANAMA), POSEIDON PESCADORES S.A. (PANAMA), LEADER PESCADORES S.A. (PANAMA) and WELL PESCADORES S.A. (PANAMA). As of December 31, 2005, the Company and its subsidiaries owned 25 vessels: Trump, Babitonga (Great), Paragon, Best, Elegant, Brave, Advance, Oceanic, Buenos Aires (Giant), Blossom, Royal, Shining, Brilliant, Sunny, Scan Bulker, Gallant, Grand, Federal, Excellent, Honor, Bright, Superior, Grand Overseas, Unicorn Brilliant and Well.

The Company and its subsidiaries' main business scope includes

- (1) Category A shipping agency business.
- (2) Sea transportation and related businesses.
- (3) Agency for the purchase, sale and lease of vessels.
- (4) Other trading and agency businesses related to shipping vessels' parts.
- (5) Unrestricted or unlimited businesses, including those permitted by law.

The parent company: None.

As of December 31, 2005, the number of employees was 657.

## SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were prepared in accordance with the "Standards Governing the Compilation of Financial Statements by Securities Issuers" and generally accepted accounting principles of the Republic of China. The significant accounting policies and measurement basis were as follows:

(1) Principles of consolidation

a. The subsidiaries that have been consolidated in the financial statements are as follows:

Name of subsidiary company	Date established	Relationship with the Company	Main business	The Company's ownership as of December 31, 2005
DONG LIEN MARITIME S.A. (PANAMA)	Sep. 28, 1979	The Company's subsidiary	International sea transportation and shipping agent-related businesses	Direct ownership of 100%
GRAND OCEAN NAVIGATION S.A. (PANAMA)	Oct. 21, 1991	Investee company of the Company's subsidiary	"	Direct ownership of 100% by the Company's subsidiary
FOURSEAS MARITIME S.A. (PANAMA)	Oct. 31, 1991	"	"	"
ELEGANT PESCADORES S.A. (PANAMA)	Oct. 07, 1993	"	"	"
BRAVE PESCADORES S.A.	Dec. 12, 1993	"	"	"
JACKSON STEAMSHIP S.A. (PANAMA)	Oct. 12, 1990	"	"	"
BRILLIANT PESCADORES S.A.	Dec. 22, 1993	"	"	"
BLOSSOM PESCADORES S.A. (PANAMA)	May 09, 1996	"	"	"
ROYAL PESCADORES S.A. (PANAMA)	Nov. 30, 1995	"	"	"
GENIUS PESCADORES S.A. (PANAMA)	Aug. 20, 1993	"	"	"
MOON BRIGHT SHIPPING CORP. (PANAMA)	Dec. 03, 1992	"	"	"
GALLANT PESCADORES S.A. (PANAMA)	Oct. 02, 1996	"	"	"
SUNNY PESCADORES S.A. (PANAMA)	Jul. 09, 1993	"	"	"
GRAND PESCADORES S.A. (PANAMA)	Jun. 04, 1997	"	"	"
SHINING PESCADORES S.A. (PANAMA)	Oct. 21, 1993	"	"	"
EXCELLENT PESCADORES S.A. (PANAMA)	Nov. 05, 2002	"	"	"
HONOR PESCADORES S.A. (PANAMA)	May 20, 2003	"	"	"
BRIGHT PESCADORES S.A. (PANAMA)	May 20, 2003	"	"	"
SUPERIOR PESCADORES S.A. (PANAMA)	Nov. 21, 2003	"	"	"
GRAND OVERSEAS S.A. (PANAMA)	Jan. 08, 2004	"	"	"
UNICORN BRILLIANT S.A. (PANAMA)	Jan. 02, 2004	"	"	"
VALOR PESCADORES S.A. (PANAMA)	Apr. 08, 2004	"	"	"
PHAROS PESCADORES S.A. (PANAMA)	Jul. 27, 2004	"	"	"
POSEIDON PESCADORES S.A. (PANAMA)	Jul. 27, 2004	"	"	"
BEACON PESCADORES S.A. (PANAMA)	Sep. 08, 2004	"	"	"
LEADER PESCADORES S.A. (PANAMA)	Aug. 03, 2004	"	"	"
WELL PESCADORES S.A. (PANAMA)	Mar. 24, 2005	"	"	"

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For purposes of preparing the consolidated financial statements, the debt, obligations and inter-company transactions between the Company and its subsidiaries have been eliminated.

The balance sheet accounts of the financial statements of foreign subsidiaries are translated at year-end exchange rates, and the income statement items are translated at weighted-average exchange rates prevailing during the year. Retained earnings at the beginning of the year are translated at the prior year's year-end exchange rate, whereas the remaining stockholders' equity accounts are translated at historical rates. The resulting translation adjustment is charged to the cumulative translation adjustment account in stockholders' equity.

- b. Change in subsidiary's investments: The Company's subsidiary DONG LIEN MARITIME S.A. (PANAMA) invested in WELL PESCADORES S.A. (PANAMA) during 2005, and the subsidiary company has a 100% shareholding.
- c. Related information on the subsidiaries that are not included in the consolidated financial statements: None.
- d. Subsidiary's accounting year-end differs from the Company's: None.
- e. Subsidiary's accounting policies and controlling companies differ from the Company's: None.
- f. Special operating risk of foreign subsidiaries: None.
- g. Legal or contract restrictions on distribution of earnings of the subsidiaries: None.
- h. Method and duration of amortization of consolidated debit or credit: None.

(2) Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, checking accounts, time deposits rescindable anytime, certificates of deposits, and cash equivalents. Cash equivalents are short-term investments which could be converted to cash anytime and which do not have a significant level of market risk related to potential interest rate changes, and include treasury bills, commercial paper, and banker's acceptances with maturities of three months or less at the date of purchase.

(3) Short-term investments

Short-term investments in marketable securities are stated at cost upon purchase. The cost of securities sold is calculated based on the moving weighted-average cost and valued at the lower of cost or market at year-end. The market value of short-term investments is determined based upon the average closing price for the last month of the accounting year, but for open-end funds, the market value refers to the net asset value of the fund on the balance sheet date.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(4) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based upon the collectibility of notes and accounts receivable and of other receivables. Bad debt expense depends on the Company's past collection experience, aging analysis, and consideration of internal control.

(5) Inventories

Inventories relate to the fuel for ships and are stated at the lower of cost or market value at year-end. When comparing the cost with the market value, the lump-sum method is adopted and replacement cost is used as the market value. Under transportation industry practice and the operating procedures of the Company, the physical stock-taking of year-end inventory is only performed for ships in harbor. For those ships that are not in harbor, the ship captains are responsible for the physical inventory observation.

(6) Long-term equity investments

Long-term investments in investee companies in which the Company owns less than 20% of voting shares and has no significant influence are initially recorded at cost. However, investments in listed (or OTC) company stocks are stated at the lower of cost or market value. When the cost exceeds market value, an allowance for investment loss account is established and recorded as a deduction from stockholders' equity. Investment loss is recognized currently for investment in nonlisted (non-OTC) company stocks when there is sufficient evidence indicating that the investment value is impaired and the possibility of recovery is slim. Stock dividends derived from capitalization of capital reserve or retained earnings are accounted for as an increase in the number of shares held and not as investment income, and the unit cost per share is recomputed using the weighted-average method.

Long-term equity investments in which the Company has over 20% ownership of voting shares, or less than 20% but has significant influence, are accounted for by the equity method. Premiums and discounts on long-term equity investment, if any, are amortized on a straight-line basis over five years. The differences between selling price and carrying value are recorded as gain or loss on disposal of long-term equity investments. If there was some capital surplus generated by long-term equity investment, it should be directly recorded as current gain or loss in proportion to the amount sold.

The Company assesses the value of investee companies not only using the equity method, but includes the financial statements of subsidiaries when preparing consolidated financial statements on June 30 and December 31 for every accounting year.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Gain or loss on sales between the Company and investee companies accounted for using the equity method is deferred until realized through transactions with third parties. It should be amortized over the useful life of the assets if it was generated by depreciated or amortized assets. Otherwise, it should be recognized as gain or loss when it occurred.

The balance sheet accounts of the financial statements of foreign subsidiaries are translated at year-end exchange rates, and the income statement items are translated at weighted-average exchange rates prevailing during the year. Retained earnings at the beginning of the year are translated at the prior year's year-end exchange rate whereas the remaining stockholders' equity accounts are translated at historical rates. The resulting translation adjustment is charged to the cumulative translation adjustment account in stockholders' equity.

(7) Property and equipment, depreciation and disposal gain (loss)

Property and equipment are stated at cost or cost plus incremental value from revaluation. Major additions, betterments and renewals, including related interest incurred up to the point when the fixed assets can be placed into service, are capitalized.

Depreciation of property and equipment is calculated by the straight-line method over the estimated useful lives as stipulated by the Navigation & Aviation Authorities in the following schedule.

Buildings and structures	50 years
Transportation equipment	5 years
Vessel equipment	8 to 25 years
Office furniture and equipment	5 to 9 years
Leasehold improvement	5 years
Other equipment	3 to 25 years

For property and equipment still in use after full depreciation, estimated salvage value may continue to be depreciated over their estimated useful lives.

Gain or loss on disposal of property and equipment is recorded as nonoperating income or expense.

(8) Financial instruments (including derivative financial instruments)

Financial instruments and nonfinancial instruments used in other transactions are recorded at their fair values on the balance sheets. Fluctuations in fair value, regardless of whether or not realized, are recorded as transaction gain or loss when they occur. The interest income or interest expense resulting from financial instruments held for trading purposes is recorded

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

as interest income or interest expense when it occurs, and not recorded as transaction gain or loss.

If the derivative financial instruments are to hedge against the risks from current assets or liabilities, the gains or losses are recorded as current income or losses and charged to current assets or liabilities. If the derivative financial instruments are to hedge against risks from fluctuations in exchange rates that affect foreign currency commitments and expended transactions that will be executed in a foreign currency, the gains or losses are deferred till the hedged-against trading proceeds are charged to the price of the transaction. The gains or losses arising before contract maturity are deferred and amortized to current income or losses over the remaining periods.

(9) Deferred charges

Deferred charges consist of unamortized major renovation costs and computer software acquisition costs of vessel equipment stated at cost, and are amortized using the straight-line method over a period of two to five years. Moreover, the cost for purchasing a golf club membership was stated at cost, and is amortized over a period of 20 years.

(10) Corporate bonds payable

The capital stock account is credited for the par value of the Company's common shares which the bonds are converted into and the excess of the carrying value of the bonds and other assets and liabilities related to such convertible bonds as of the date of their conversion over the amounts credited into the capital surplus account.

(11) Foreign currency transactions

Foreign currency transactions are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from settlement of foreign currency assets and liabilities are credited or charged to income. At year-end, the balances of foreign currency assets and liabilities are restated based on year-end exchange rates and resulting exchange gains or losses are credited or charged to current income.

(12) Income tax

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 22, "Accounting for Income Taxes", to recognize inter-period tax allocations; to recognize deferred income tax liabilities on future taxable temporary differences; and to recognize deferred income tax assets on future deductible temporary differences, prior year loss carryforwards, and investment tax credits. The future reliability of deferred income tax assets is assessed, and a valuation account, if needed, is provided accordingly.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Effective from the implementation of the imputation tax system in 1998, after-tax net earnings shall be distributed according to the resolution of the stockholders' annual meeting in the following year. The undistributed earnings shall be subject to 10% surtax and recorded as income tax expense during the year such stockholders' resolution is passed.

(13) Employee pension plan

In 1992, the Company established an Employee Retirement Fund Committee and approved an employee pension plan. Effective November 1992, in accordance with the Ministry of the Interior's "Regulations on Employee Retirement Fund Provision and Administration", the Company made monthly pension contributions at 2% of total monthly employee gross salaries. This contribution rate was revised to 4.3% commencing April 1997 and deposited into a designated account with the Central Trust of China. After July 1, 2005, the Labor Pension Act took effect. The employees who were previously subject to the Labor Standards Law could choose to be subject to the defined contribution pension plan under the Labor Pension Act (the New Plan), and for employees hired after the effective date, the pension plan was changed to the New Plan. Under the New Plan, the Company contributes monthly an amount no less than 6% of the employees' monthly salaries and wages to the employees' individual pension accounts deposited with the Bureau of Labor Insurance. Before the Company pension plan is revised and changed to the New Plan, if the Company pension plan has no related rule, then it should follow the New Plan.

The Company accounts for the defined benefit pension plan in accordance with ROC SFAS No. 18, "Accounting for Pensions". SFAS No. 18 requires that the Company recognize a minimum pension liability as of the balance sheet date equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets. SFAS No. 18 also requires the Company to recognize net periodic pension costs (including service cost, transitional net assets, past service cost and pension gain/loss) based on actuarially determined amounts over the service lives of the retirement plan participants. If the average remaining service life is shorter than 15 years, then 15 years is used.

Under the defined contribution plan, the Company contributes 6% of the employees' monthly salaries and wages to the employees' individual pension accounts deposited with the Bureau of Labor Insurance as a current expense.

(14) Revenue and cost recognition

Revenue is generally recognized when the earnings process is completed or virtually completed and revenue is realized or realizable and measurable. The relevant costs are recognized when the revenue is recognized.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(15) Asset impairment

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment". In accordance with SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

(16) Information related to the translation of the financial statements

The financial statements of the Company have been prepared in the local currency and in Chinese. The financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

**3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES**

The Company adopted Statement of Financial Accounting Standards No. 35 "Accounting for Asset Impairment" in 2005. The Company determined that no asset had an indication of impairment as of December 31, 2005.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTS**

(1) Cash and cash equivalents

	<u>2005</u>	<u>2004</u>
Cash on hand	\$ 404	296
Petty cash	19,239	14,588
Bank deposits		
Checking accounts	973	38,359
Savings accounts	63,893	99,852
Foreign currency deposits	46,980	176,274
Time deposits	916,605	158,300
Total	<u>\$ 1,048,094</u>	<u>487,669</u>

(2) Long-term equity investments

<u>2005</u>	<u>Share</u>	<u>Amount</u>	<u>Ownership</u>
Under the Equity Method			
EUROASIA II INC., PANAMA (original investment cost US\$1,022,173 \$ 33,527)	45	\$ 63,520	45%
Under the Cost Method			
K / S DANRED I (original investment cost US\$518,545 \$ 16,721)	13	16,241	13%
ETERNAL PESCADORES S.A. (PANAMA) (original investment cost US\$461,290 \$ 15,131)	19	15,131	19%
HARMONY SUCCESS S.A. (PANAMA) (original investment cost US\$930,715 \$ 30,527)	19	30,527	19%
LANDO CO., LTD. (original investment cost JPY3,000,000 \$ 879)	6,000	879	18.75%
Subtotal		<u>62,778</u>	
Total		<u>\$ 126,298</u>	

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>2004</b>	<b>Share</b>	<b>Amount</b>	<b>Ownership</b>
Under the Equity Method			
EUROASIA II INC., PANAMA	45	\$ 55,344	45%
(original investment cost US\$1,353,493 \$ 42,852)			
EUROASIA III INC., PANAMA	45	66	45%
(original investment cost US\$3,089 \$ 98)			
Subtotal		55,410	
Under the Cost Method			
K / S DANRED I	13	12,395	13%
(original investment cost US\$518,545 \$ 16,721)			
ETERNAL PESCADORES S.A. (PANAMA)	19	14,604	19%
(original investment cost US\$461,290 \$ 14,604)			
HARMONY SUCCESS S.A. (PANAMA)	19	4,341	19%
(original investment cost US\$930,715 \$ 30,527)			
Subtotal		31,340	
Total		\$ 86,750	

- a. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in EUROASIA II INC., PANAMA and EUROASIA III INC., PANAMA in 2003. The companies were established for purposes of owning newly built vessels – Bianco Pescadores and Hull No. 10369. The payments for the vessels' construction and related expenses were made in installments according to the shareholding percentages of both investee companies, but EUROASIA III INC., PANAMA transferred all of the assets and liabilities and equity accounts to EUROASIA II INC., PANAMA during July 2005. The Company's subsidiary had a 45% and 0% shareholding, respectively, for each of the investee companies. As of December 31, 2005, the Company's subsidiary had paid \$33,527 (US\$1,022,173) and \$0 (US\$0), respectively, for each of the investee companies. Investment gain or loss recognized for 2005 and 2004 based on the audited financial statements with unqualified opinion issued by both of the investee companies' independent auditors is detailed below:

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<u>Investee company</u>	<u>2005</u>	<u>2004</u>
	<u>Investment gain (loss)</u>	
EUROASIA II INC., PANAMA (Note)	\$ 16,725	13,241
EUROASIA III INC., PANAMA	132	147,772
Total	<b>\$ 16,857</b>	<b>161,013</b>

Note : The Company's subsidiary received repayment of long-term investments of \$10,859 (US\$337,500) from EUROASIA II INC., PANAMA's decrease in capital in 2005.

- b. The Company invested in K/S DANRED I Corporation of Denmark in 1999. This company was established for purposes of owning a newly built vessel—Bianco bulker. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. The Company has a 13% shareholding. During 2001, the vessel construction was completed and the Company had paid \$16,721 (US\$518,545). During 2005 and 2004, the Company received cash dividends of \$19,330 (including the recovery of liquidating dividends of \$3,846) and \$23,710 (excluding liquidating dividends of \$4,326), respectively.
- c. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in ETERNAL PESCADORES S.A. (PANAMA) during 2002. This company was established for purposes of owning a newly built vessel—Pescadores Bulker. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. In March 2004, the vessel construction was completed. The Company's subsidiary has 19% ownership and had paid \$15,131 (US\$461,290). During 2005 and 2004, the Company's subsidiary received cash dividends of \$2,200 (US\$68,400) and \$1,905 (US\$57,000), respectively.
- d. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in HARMONY SUCCESS S.A. (PANAMA) during May 2003. The subsidiary company had 19% ownership. The main purpose of establishing the company was to own a newly built vessel—Golden Kiku. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. In September 2005, the vessel construction was completed and the subsidiary company had paid \$30,528 (US\$930,715).
- e. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in LANDO CO., LTD. during August 2005. As of December 31, 2005, the subsidiary company had 18.75% ownership and had paid \$879 (JPY3,000,000).

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(3) Property and equipment

<b>2005</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Amount</b>
Land	\$ 79,937	-	79,937
Buildings and structures	29,957	2,407	27,550
Transportation equipment	5,300	221	5,079
Vessel equipment	9,662,342	2,289,928	7,372,414
Office furniture and equipment	2,562	841	1,721
Leasehold improvements	7,963	4,894	3,069
Prepayments for business facilities	233,220	-	233,220
Other equipment	46,244	18,327	27,917
<b>Total</b>	<b>\$ 10,067,525</b>	<b>2,316,618</b>	<b>7,750,907</b>
<b>2004</b>			
Land	\$ 79,937	-	79,937
Buildings and structures	29,572	1,414	28,158
Transportation equipment	2,260	1,758	502
Vessel equipment	7,995,745	1,782,348	6,213,397
Office furniture and equipment	2,665	965	1,700
Leasehold improvements	12,116	8,563	3,553
Prepayments for business facilities	208,383	-	208,383
Other equipment	32,343	8,938	23,405
<b>Total</b>	<b>\$ 8,363,021</b>	<b>1,803,986</b>	<b>6,559,035</b>

- a. The total insurance coverage for the above fixed assets amounted to US\$279,640 thousand and \$101,600 as of December 31, 2005, and US\$199,640 thousand and \$91,978 as of December 31, 2004.
- b. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), and its investee company BRILLIANT PESCADORES S.A. disposed of the vessel Brilliant in March 2003. The gain on disposal was US\$15,569.54, and then the vessel was leased back. In accordance with Statement of Financial Accounting Standards No. 2, the Company's subsidiary elected to defer the recognition of the unrealized gain on sale and

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

leaseback and to amortize it over a period of three years for renting. As of December 31, 2005 and 2004, the unrealized gain on sale and leaseback was \$28 (US\$865) and \$192 (US\$6,055), respectively.

(4) Pension reserve

a. As of December 31, 2005 and 2004, the Company's pension expenses were as follows:

	<u>2005</u>	<u>2004</u>
Pension reserve account balance, end of year	\$ 4,877	3,475
Pension expenses:		
Defined benefit net pension cost	2,207	2,563
Defined contribution net pension cost	967	-
Accrued pension liabilities	14,470	11,132

b. In 2005, under the defined contribution pension plan, the Company contributed pension expenses amounting to \$967 to the Bureau of Labor Insurance.

c. Effective on December 31, 1996, the Company adopted SFAS No. 18, "Accounting for Pensions." According to actuarial reports of December 31, 2005 and 2004, deferred pension cost recognized was \$2,022 and \$2,684, respectively.

d. Components of net periodic pension cost for the year

	<u>2005</u>	<u>2004</u>
Service cost	\$ 1,052	1,422
Interest cost	489	446
Projected return on plan assets	( 104 )	( 55 )
Amortization	770	750
Net periodic pension costs	<u>\$ 2,207</u>	<u>2,563</u>

e. Reconciliation of the funded status of the plan and accrued pension cost at December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Discount rate	3.00%	2.50%
Future salary increase rate	1.50%	1.00%
Expected rate of return on pension fund assets	3.00%	2.50%

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>2005</b>	<b>2004</b>
Benefit obligation		
Vested benefit obligation	( \$ 7,171 )	( 5,463 )
Non-vested benefit obligation	( 12,176 )	( 9,144 )
Accumulated benefit obligation	( 19,347 )	( 14,607 )
Additional benefits based on future salaries	( 2,931 )	( 1,702 )
Projected benefit obligation	( 22,278 )	( 16,309 )
Fair value of plan assets	4,877	3,475
Funded status	( 17,401 )	( 12,834 )
Unrecognized net transitional obligation	71	83
Unrecognized prior service cost	1,951	2,601
Unrecognized net loss	7,834	3,469
Additional minimum pension liability	( 6,925 )	( 4,451 )
Accrued pension liability	<u>( \$ 14,470 )</u>	<u>( 11,132 )</u>

As of December 31, 2005 and 2004, vested benefit obligation under the pension plan amounted to \$7,468 and \$5,740, respectively.

(5) Long-term loans/current portion of long-term loans

	<b>2005</b>	<b>2004</b>
Secured loans	\$ 4,586,371	4,278,609
Credit loans	152,000	-
Less: current portion	( 608,985 )	( 827,935 )
Net amount	<u>\$ 4,129,386</u>	<u>3,450,674</u>

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 1.125%~6.993% and 1.55%~4.10% for 2005 and 2004, respectively.

(6) Corporate bonds payable

On January 28, 2004, the Company issued the 1<sup>st</sup> domestic unsecured convertible bonds in an aggregate amount of \$230,000. The conversion price was NT\$15.15 (dollars) per share, adjusted to NT\$12.74 (dollars) after July 28, 2004 (the date of capitalization of capital surplus and retained earnings), and the interest-premium was \$2,660 for 2004. As of December 31, 2004, the above-mentioned corporate bonds were converted into 16,455 thousand shares of common stock with par value of \$164,550 and produced \$68,110 as capital surplus.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(7) Capital stock

The movements of the capital stock are summarized as follows:

(amounts expressed in New Taiwan dollars)

Stock Authorization Date	Authorized Capital	Paid-in Capital	Remarks
Mar. 1985	\$ 12,000,000	12,000,000	Initial capital
Mar. 1992	29,000,000	29,000,000	Capital increase in cash of \$ 17,000,000
May 1993	53,000,000	53,000,000	" \$ 24,000,000
Aug. 1994	95,000,000	95,000,000	" \$ 42,000,000
Dec. 1996	199,990,000	199,990,000	" \$104,990,000
Jul. 1997	2,600,000,000	800,000,000	Capital increase in cash of \$584,810,000, and capitalization of retained earnings of \$15,200,000
Jun. 1998	2,600,000,000	1,201,650,000	Capital increase in cash of \$240,000,000, and capitalization of retained earnings and capital surplus of \$161,650,000
Nov. 1999	2,600,000,000	1,297,782,000	Capitalization of capital surplus of \$96,132,000
Dec. 2000	2,600,000,000	1,428,760,200	Capitalization of retained earnings of \$55,804,626, capital surplus of \$73,973,574, and employee bonuses of \$1,200,000
Oct. 2001	2,600,000,000	1,471,275,480	Capitalization of retained earnings of \$40,005,280 and employee bonuses of \$2,510,000
Oct. 2002	2,600,000,000	1,525,770,120	Capitalization of retained earnings of \$51,494,640 and employee bonuses of \$3,000,000
Oct. 2003	2,600,000,000	1,541,027,820	Capitalization of retained earnings of \$15,527,700
Aug. 2004	2,600,000,000	1,933,515,800	Capitalization of retained earnings of \$154,102,780, capital surplus of \$146,397,640, employee bonuses of \$7,500,000 and convertible bonds of \$84,487,560
Oct. 2004	2,600,000,000	2,009,417,830	Capitalization of convertible bonds of \$75,902,030
Nov. 2004	2,600,000,000	2,013,577,920	Capitalization of convertible bonds of \$4,160,090
Jun. 2005	3,800,000,000	2,524,972,400	Capitalization of retained earnings of \$352,376,140, capital surplus of \$151,018,340 and employee bonuses of \$8,000,000

(8) Distribution of retained earnings

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The articles of incorporation of the Company mandate that 10% of after-tax earnings should first offset cumulative losses from previous years, and 10% of the remainder be set aside as legal reserve. The board of directors may submit an earnings distribution proposal to the stockholders' meeting for resolution, of which employee bonuses cannot be less than 2% and remuneration to directors and supervisors cannot exceed 5%. Dividends may be distributed after a special surplus is appropriated.

According to the articles of incorporation, the dividend policy of the Company is based on the prudence principle considering the long-term financing structure and operations in the future. When earnings and funds become relatively sufficient for operating and expanding, then cash dividends or stock dividends will be distributed. In the meanwhile, stock dividends of at most 50% and cash dividends of at least 50% should be distributed.

The distribution of retained earnings for 2004 and 2003 was approved in the stockholders' meetings on April 26, 2005, and May 28, 2004, respectively, as follows:

<b>Item</b>	<b>2004</b>	<b>2003</b>
Legal reserve	\$ 88,910	23,087
Special reserve	37,586	-
Directors' and supervisors' remuneration	6,000	4,500
Employee bonuses — stock (recorded at par value)	8,000	7,500
Employee bonuses — cash	8,000	-
Capitalization of stockholders' bonuses — stock (recorded at par value)	352,376	154,103
Capitalization of stockholders' bonuses — cash	402,716	77,051
Total	<b>\$ 903,588</b>	<b>266,241</b>

The above-mentioned capitalization of stockholders' bonuses — cash of \$402,716 and \$77,051 had been distributed as of July 4, 2005, and August 13, 2004, respectively.

Following is the relevant information on distribution of retained earnings for dividends per share, employee bonuses, and compensation to directors and supervisors of the Company in the years 2004 and 2003:

<b>dollars)</b>	<b>(amounts expressed in New Taiwan dollars)</b>	
<b>Dividends per share</b>	<b>2004</b>	<b>2003</b>
Cash	\$ 2.00	0.5
Stock	1.75	1.0
Total	<b>\$ 3.75</b>	<b>1.5</b>

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>Employee bonuses and directors' and supervisors' remuneration</b>	<b>2004</b>	<b>2003</b>
Employee bonuses – cash	\$ 8,000	-
Employee bonuses – stock	8,000	7,500
Directors' and supervisors' remuneration	6,000	4,500
<b>Total</b>	<b><u>\$22,000</u></b>	<b><u>12,000</u></b>

If the above employee bonuses and directors' and supervisors' compensation were considered current year's expense, the Company's primary earnings per share (after tax) for 2004 and 2003 would be NT\$4.52 (dollars) and NT\$1.42 (dollars), respectively. The above employee bonuses were 800 and 750 thousand shares of capital stock constituting 0.40% and 0.49% of the Company's outstanding stock as of December 31, 2004 and 2003, respectively.

The distribution of employee bonuses and directors' and supervisors' compensation for 2005 is still pending the decision of the Company's directors' meeting and stockholders' meeting. The related information will be announced on the Internet, such as on the Market Observation Post System.

(9) Income tax

a. The components of income tax expenses (benefit) were as follows:

	<b><u>2005</u></b>	<b><u>2004</u></b>
Income tax payable	\$ 56,571	12,901
Increase in deferred income tax assets – current	( 1,734 )	( 521 )
Income tax prepayment and withholding	11,318	9,645
(Over-accrual) under-accrual of prior years' income tax expense	( 1,375 )	13,082
<b>Income tax expense</b>	<b><u>\$ 64,780</u></b>	<b><u>35,107</u></b>

The components of income tax expense were as follows:

	<b><u>2005</u></b>	<b><u>2004</u></b>
Income tax currently payable	\$ 67,889	22,546
Deferred income tax revenue	( 1,734 )	( 521 )
(Over-accrual) under-accrual of prior years' income tax expense	( 1,375 )	13,082
Additional 10% surtax on undistributed earnings	-	-

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Income tax expense	<b>\$ 64,780</b>	<b>35,107</b>
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**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. The reconciliation of the income tax effects of income before income tax calculated using the actual tax rate (25%) and income tax currently payable was as follows:

	<b>2005</b>	<b>2004</b>
The income tax effects of income before income tax calculated using the actual tax rate (25%)	\$ 380,883	231,041
Permanent difference		
Investment income – equity method (excluding cash dividend)	( 313,745 )	( 210,753 )
Gain on disposal of investments	( 142 )	( 43 )
Liquidating dividends – cost method	( 962 )	1,082
Accrued premium on convertible bonds	-	665
Difference between book and tax on depreciation of assets	53	32
Other	68	1
Temporary difference		
Foreign exchange loss	1,518	1,097
Pension expense	216	( 576 )
Income tax currently payable	\$ <b>67,889</b>	<b>22,546</b>

c. For 2005 and 2004, the components of deferred income tax revenue were as follows:

	<b>2005</b>	<b>2004</b>
Foreign exchange loss	\$ 1,518	1,097
Pension expense	216	( 576 )
Deferred income tax revenue	\$ <b>1,734</b>	<b>521</b>

d. As of December 31, 2005 and 2004, deferred income tax assets and liabilities due to temporary differences and income tax effects were as follows:

	<b>2005</b>	<b>2004</b>
Total deferred tax assets	\$ <b>3,843</b>	<b>2,199</b>
Total deferred tax liabilities	\$ -	<b>90</b>

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>Taxable temporary differences</b>	
	<b>2005</b>	<b>2004</b>
Deferred income tax assets (liabilities) — current		
- Bad debt expense	\$ 1,800	1,800
- Pension expense	7,863	6,999
- Loss (gain) on foreign exchange	5,710	( 362 )
Net amount	<b>\$ 15,373</b>	<b>8,437</b>
	<b>Tax effect</b>	
	<b>2005</b>	<b>2004</b>
Deferred income tax assets (liabilities) — current		
- Bad debt expense	\$ 450	450
- Pension expense	1,965	1,749
- Loss (gain) on foreign exchange	1,428	( 90 )
Net amount	<b>\$ 3,843</b>	<b>2,109</b>

- e. The Company's income tax returns were examined and assessed additional tax amounting to \$3,350 by the Tax Authority through 2003. The Tax Authority assessed additional tax amounting to \$5,742 for 1997 and 1998. The Company disagreed with this tax assessment and has applied to the Tax Authority for administrative appeal proceedings. In accordance with the principle of conservatism, the Company recorded fully the above-mentioned assessment of additional tax amounting to \$5,742 in 2001 as income tax expenses. The Tax Authority assessed additional tax amounting to \$1,345, \$6,669 and \$4,901 for 2002, 2001 and 2000, respectively, and the assessment's method of calculating the tax was different from the past; therefore, the Company has filed an administrative appeal and recorded fully the above-mentioned assessment of additional tax as income tax expenses.

For the above tax administrative appeals of 2001 and 2000, the Tax Authority decided to cancel the assessment of additional tax amounting to \$3,109 and \$1,605, respectively.

The Company canceled the above 2002 tax administrative appeal in the first half of 2005 and expected to pay the additional tax amounting to \$1,345 in July 2005.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

f. Related information on imputation tax:

	<b>2005</b>	<b>2004</b>
The balance of stockholders' imputation credit account	<b>\$ 19,734</b>	<b>13,586</b>
	<b>2005</b>	<b>2004</b>
Estimated (actual) imputation credit ratio of earnings distribution	<b>(estimated) 5.21%</b>	<b>(actual) 3.16%</b>

g. Related information on undistributed earnings

	<b>2005</b>	<b>2004</b>
Undistributed earnings of 1997 and before	\$ -	-
Undistributed earnings of 1998 and after	1,465,375	910,173
	<b>\$</b>	
Total	<b>1,465,375</b>	<b>910,173</b>

The Company's subsidiaries were established in Panama, and according to the local law, there is no income tax assessed by the local Tax Authority.

(10) Earnings per share

The Company's primary and diluted earnings per share for 2005 and 2004 are calculated as follows:

Unit: NTD'000s/Shares'000s; Earnings per share: NTD

	<b>2005</b>		<b>2004</b>	
	<b>Before Tax</b>	<b>After Tax</b>	<b>Before Tax</b>	<b>After Tax</b>
<b>Primary earnings per share</b>				
— Current period				
Consolidated net income attributed to common shareholders	\$ 1,523,570	1,458,790	924,203	889,096
Weighted-average number of shares outstanding	252,497	252,497	191,786	191,786
Primary earnings per share	\$ 6.03	5.78	4.82	4.64
— Retroactively adjusted				
Weighted-average number of shares outstanding	252,497	252,497	240,495	240,495
Primary earnings per share — retroactively adjusted	\$ 6.03	5.78	3.84	3.70

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**5. RELATED-PARTY TRANSACTIONS**

(1) Names of related parties and relationship with the Company

<u>Name of related party</u>	<u>Relationship</u>
EUROASIA II INC., PANAMA	An investee company that was accounted for under the equity method by the Company's subsidiary.
DONG LIEN SHIPPING CO., LTD.	The company's president was a Company director.
WISDOM MARINE LINES S.A.	The company's president was an immediate family member of the Company's chairman.
HARMONY SUCCESS S.A. (PANAMA)	"

(2) Significant transactions with related parties

a. Sales

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ 32,642	1	20,919	3

The Company acted as the related parties' agent for vessel management and charged them management fees. The sales price and collection period for the Company's sales to related parties are according to mutually agreed-upon terms.

b. Other accounts receivable — related party

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
WISDOM MARINE LINES S.A.	\$ 2,948	100	-	-

c. Advance receipts (recorded as other current liabilities)

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ 2,902	3	2,644	3

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

d. DONG LIEN SHIPPING CO., LTD. paid the Company rental monthly according to the lease contract for part of an office building, as follows:

<u>DONG LIEN SHIPPING CO., LTD.</u>	<u>2005</u>	<u>2004</u>
Rental income	\$	<b>96</b>
	<b>96</b>	

e. For the agency contract concluded by the Company and the related parties, please refer to Note 7.

**6. PLEDGED ASSETS**

The following is a summary of assets provided by the Company to financial institutions as guarantee and collateral for secured loans as of December 31, 2005 and 2004.

<u>Name of asset</u>	<u>2005</u>	<u>2004</u>
Property and equipment (net book value)		
-Land	\$	79,937
	79,937	
-Buildings and structures	25,087	25,814
-Vessel equipment	7,295,729	6,213,186
Restricted assets	16,127	15,566
Total	\$	<b>6,334,503</b>
	<b>7,416,880</b>	

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**7. COMMITMENTS AND CONTINGENCIES**

As of December 31, 2005 and 2004, the Company's commitments and contingencies were as follows:

(1) The Company had significant contracts as follows:

<u>Contract Title</u>	<u>Contracting Party</u>	<u>Period Covered</u>	<u>Contents</u>
Management Contract	ETERNAL PESCADORES S.A. (PANAMA)	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	Acting as the Company's agent for management of the vessel
"	K/S DANRED I	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	MAJESTIC PESCADORES S.A. (PANAMA)	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	K/S DANSKIB 33	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	EUROASIA II INC., PANAMA	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"

(2) As of December 31, 2005 and 2004, the Company was provided endorsement guarantees by other companies amounting to US\$10,910 thousand and US\$6,511 thousand, respectively; the Company had issued guarantee notes for cargo transportation, which amounted to \$558,188 and \$745,340, respectively.

(3) The Company signed an agreement for purchase of a Taiwan Danshui Golf Club Membership with Mr. Hsiao Shing-Yuan (hereinafter called defendant) in Nov. 2003; the selling price was \$1,800. After the defendant received the check issued by the Company and cashed the check on December 10, 2003, the Company found the membership of the defendant was a nontransferable general membership, but the defendant firstly cheated the Company by signing the above-mentioned agreement and receiving the Company's conveyance payment, and secondly further cheated the Company with the excuse that the trading of club memberships was now prohibited. The Company demanded the defendant solve the problems with the above-mentioned agreement many times, but the defendant ignored the demands. The Company has assigned an attorney to file suit against the defendant, and it is now being examined by the Taipei District Court. In accordance with the principle of conservatism, the Company has provided full allowance for doubtful accounts for the above-mentioned selling price of \$1,800 (recorded as other financial assets – current) in the financial statements for 2003.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (4) The Company's subsidiary entered into an agreement to purchase the vessel Well to be constructed for its business operation, and at the same time it signed the construction and purchase agreement, it sold the vessel to MAN SHIPPING LP for the same price. The subsidiary also entered into a long-term vessel-leasing contract with MAN SHIPPING LP for the same vessel for a guaranteed minimum lease term of 5 years. Upon expiration of the 5-year lease term, the subsidiary had the right to renew the lease for another 10 years, or to purchase the vessel at the agreed-upon price according to the contract (at no bargain purchase price). The Company leased the vessel according to the contract and made deposits-out amounting to US\$4,697,500. In May 2005, the Company purchased the vessel Well for US\$15,537,679.
- (5) FOURSEAS MARITIME S.A. (PANAMA) and PESCADORES TRANSPORT S.A. (PANAMA), investee companies of the Company's subsidiary (the latter was its investee company prior to November 8, 1999), undertook a cargo shipment for Hsing Chang Lumber Company in 1997. Loss of freight and belated freight due to nonperformance on the part of Hsing Chang Company amounted to US\$81,887.48 and US\$80,925.99 (equivalent to \$6,180 and \$2,256), respectively. The Company filed a claim for damage reimbursement, but both the I-Lan District Court and Taiwan High Court ruled in the defendant's favor. However, the Company was not content with the ruling of the High Court and appealed to the Supreme Court. On December 11, 2003, the Supreme Court returned the case to the High Court for a rehearing. On July 28, 2004, the Company reached agreement with Hsing Chang Lumber Company that the Company would receive the payment of \$1,900 according to the agreement on August 2, 2004, and the Company would cancel the appeal to the Taiwan High Court and agreed to forgive the remaining claim for the above-mentioned damage reimbursement with Hsing Chang Lumber Company.
- (6) The construction and purchase agreements for vessels signed by the subsidiaries of the Company's subsidiary amounted to JPY7,511,400 thousand as of December 31, 2005, and US\$6,000 thousand and JPY15,021,400 thousand as of December 31, 2004. They had paid JPY784,100 thousand as of December 31, 2005, and US\$6,000 thousand and JPY2,962,700 thousand as of December 31, 2004 (recorded as prepayments for business facilities).
- (7) The Company sold the vessel Trump and its equipment during December 2005, and the selling price was US\$4,000 thousand (equivalent to \$127,320). As of December 31, 2005, the Company had received US\$400 thousand (equivalent to \$12,732, and recorded as advance receipts), and the remaining amount of the selling price was received when the vessel Trump was delivered on January 12, 2006, and the Company estimated the gain on disposal of the vessel Trump to be \$47,635.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**8. MAJOR DISASTER LOSSES: None.**

**9. SIGNIFICANT SUBSEQUENT EVENTS:**

(1) Please refer to Note 7.7.

(2) The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in VIGOR PESCADORES S.A. (PANAMA) and GLARING PESCADORES S.A. (PANAMA) during January 2006. The Company's subsidiary had a 100% shareholding of both investee companies. The construction and purchase agreements for vessels signed by the investee companies amounted to JPY2,655,000 thousand and JPY1,132,801 thousand, respectively.

**10. FINANCIAL INSTRUMENTS**

(1) Derivative financial instruments:

a. Contract amount or nominal principal and credit risk

Unit: New Taiwan Dollars

	<b>2004</b>	
<b>Financial Instruments</b>	<b>Contract Amount</b>	<b>Credit Risk</b>
Forward Contracts		
Non-trading—The Company's sell contract	<b>USD</b> -	-
—Subsidiary company's purchase contract	<b>JPY 100,000,000</b>	-
—Purchase contract of subsidiary of subsidiary company	<b>JPY 209,000,000</b>	-

The aforementioned amount of credit risk refers to contracts with positive fair value on the balance sheet date, taking into account that net settlement of all contracts offsets one contract against another yet still remains positive. Credit risk indicates the Company and its subsidiaries' possible loss in the event of nonperformance by the counter-party to the financial instrument. Since parties to transactions with the Company and its subsidiaries are all reputable banks, default is not expected, and the likelihood of credit risk is remote.

b. Market risk

Most derivative financial instrument transactions hedge against risks of assets or liabilities in foreign currency. Gain/loss resulting from exchange rate fluctuations is adjustments to assets or liabilities denominated in foreign currency; consequently, market risk is relatively insignificant.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

c. Liquidity risk, cash flow risk, and future demand for cash

Foreign exchange forward contracts are to hedge against risks from exchange rate fluctuations which affect identifiable foreign currency assets or liabilities for transactions in foreign currency. No additional cash outflow is expected. Consequently, the operating funds of the Company and its subsidiaries would be adequate to meet such demand, and there would be no liquidity risk. Given that exchange rates are specified in forward contracts, there would be no significant cash flow risk.

d. Types and purpose of financial derivatives held

Financial derivatives held by the Company and its subsidiaries are nontrading forward contracts. Given that the purpose is to hedge against the great majority of market risks, nontrading contracts are held to hedge against risks from fluctuations in exchange rates which affect foreign currency assets or liabilities. The Company's subsidiary used derivatives for hedging, and its purpose is hedging market price risk. Hedging instruments exhibit negative correlation with hedged items and are evaluated periodically.

e. Presentation of financial derivatives in financial statements

The foreign exchange forward contracts resulted in an exchange loss of \$4,176 and a gain of \$7,281 as of December 31, 2005 and 2004, respectively. Foreign exchange forward contracts receivable and payable are netted, and the difference is booked as current assets or current liabilities. There were no foreign exchange forward contracts receivable or payable as of December 31, 2005 and 2004.

(2) Fair value of financial instruments

<b>Non-derivative Financial Instruments</b>	<b>2005</b>	
	<b>Book Value</b>	<b>Fair Value</b>
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$	
	1,309,366	1,309,366
Short-term investments	101,400	100,932
Long-term equity investments		
– impossible to estimate fair value in practice	126,298	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	242,162	242,162
Long-term loans	4,738,371	4,738,371
<u>Financial instruments with off-balance-sheet credit risk</u>		
Endorsement guarantees		US\$10,910 thousand

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>Nonderivative Financial Instruments</b>	<b>2004</b>	
	<b>Book Value</b>	<b>Fair Value</b>
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$	
	959,061	959,061
Short-term investments	3,000	3,027
Long-term equity investments		
– impossible to estimate fair value in practice	86,750	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	181,248	181,248
Long-term loans	4,278,609	4,278,609
<u>Financial instruments with off-balance-sheet credit risk</u>		
Endorsement guarantees		US\$6,511 thousand

Methods and assumptions used by the Company and its subsidiaries for determination of the fair value of financial instruments are as follows:

a. Financial assets and liabilities with book value equal to fair value:

The fair value of short-term financial instruments is estimated based upon their face value stated on the balance sheet. Because such instruments will become due shortly, their face value should be a reasonable basis for estimating their fair value. This method is applicable to cash and cash equivalents, notes and accounts receivable, notes and accounts payable, agency current account, related-party receivables, restricted assets, short-term loans, accrued tax payable, accrued expenses, other current assets and liabilities, deposits-in, deposits-out, and other accrued pension liability.

b. Short-term investments:

Fair value of marketable securities is the market price if available. Otherwise, financial or other information is used to estimate the fair value.

c. Long-term investments:

If the market value of marketable long-term equity investments is available, then the market value is used as fair value. In addition, for long-term equity investments in unlisted companies, which are not traded publicly, it is impossible to estimate their fair values.

d. Long-term loans:

Interest is computed using annual floating rates, and book value is equal to fair value.

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

e. Endorsement guarantee:

The fair value is the contract price.

(3) Financial instruments with off-balance-sheet credit risk

As of December 31, 2005 and 2004, the Company had provided guarantees for other companies amounting to US\$6,218 thousand and US\$6,805 thousand, respectively. The guarantees come from financial activities, and may result in some off-balance-sheet credit risk. Credit risk means the possible loss resulting from the failure of the counter-party to implement the financial instrument transaction contract and from a material decline in the value of related collateral. The amount of accounting loss might arise because of the credit risk. The Company did not require collateral when providing the financial endorsement guarantees.

(4) Information on concentrations of credit risk

The Company's major clients are the owners of a large amount of commodities, agencies for long-term leasing of vessels, and the Company's subsidiaries. In order to reduce credit risk, the Company regularly evaluates its customers' financial position. However, the Company usually does not require collateral from its customers.

(5) Current analysis of assets and liabilities: None.

(6) Summary of expenses for employees, depreciation, depletion and amortization

	2005			2004		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
<b>Employee expense</b>						
<b>Payroll</b>	\$ 295,687	47,921	343,608	251,008	41,431	292,439
<b>Insurance</b>	12,361	3,833	16,194	12,795	4,005	16,800
<b>Retirement</b>	-	3,174	3,174	-	2,563	2,563
<b>Others</b>	80,205	1,864	82,069	70,110	1,966	72,076
<b>Depreciation</b>	450,268	2,022	452,290	401,541	1,861	403,402
<b>Depletion</b>	-	-	-	-	-	-
<b>Amortization</b>	58,755	154	58,909	47,175	126	47,301